

# **Report of the auditor-general to the Gauteng Provincial Legislature and the council on Ekurhuleni Metropolitan Municipality**

## **Report on the consolidated and separate financial statements**

### **Introduction**

1. I have audited the consolidated and separate financial statements of the Ekurhuleni Metropolitan Municipality and its municipal entities set out on pages xx to xx, which comprise the consolidated and separate statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the consolidated and separate financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2015 (Act No. 1 of 2015) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-general's responsibility**

3. My responsibility is to express an opinion on these consolidated and separate financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the consolidated and separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and separate financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Opinion**

6. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Ekurhuleni Metropolitan Municipality as at 30 June 2016 and its consolidated and separate financial performance and cash flows for the year then ended, in accordance with SA standards of GRAP and the requirements of the MFMA and DoRA.

## **Emphasis of matters**

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

## **Significant uncertainties**

8. As disclosed in note 45 to the consolidated and separate financial statements, the municipality is the defendant in various claims and disputes. The ultimate outcome of these matters cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

## **Restatement of corresponding figures**

9. As disclosed in note 48 to the consolidated and separate financial statements, the corresponding figures for 30 June 2015 have been restated as a result of errors discovered in the financial statements of the Ekurhuleni Metropolitan Municipality during the year ended 30 June 2016.

## **Material impairment**

10. As disclosed in note 14 to the consolidated and separate financial statements, the trade and other receivables balance has been significantly impaired. The allowance for impairment of consumer debtors amounts to R7 966 251 084 (2014-15: R9 144 328 715) which represents 60% (2014-15: 68%) of total consumer debtors. The contribution to the provision for debt impairment was R 1 438 967 865 (2014-15: R 2 215 059 736).

## **Material losses**

11. As disclosed in note 57 to the consolidated and separate financial statements, the municipality incurred material losses amounting to R759 000 125 (2014-15: R707 966 059) as a result of water distribution losses, which represents 30.60% (2014-15: 32.11%) of the total water purchased. The total technical losses of water amounted to R372 404 397 (2014-15: R330 735 290). Non-technical losses amounted to R386 595 728 (2014-15: R377 230 769).
12. As disclosed in note 57 to the consolidated and separate financial statements, material losses amounting to R1 327 872 680 (2014-15: R748 033 030) were incurred as a result of electricity distribution losses which represent 15.64 % (2014-15: 10.06 %) of total electricity purchased. The total technical losses of electricity amounted to R500 944 429 (2014-15: R438 510 768). Non-technical losses amounted to R826 928 251 (2014-15: R309 522 262).

## **Material underspending on the capital budget**

13. As disclosed in the statement of comparison of budget and actual amounts, the municipality has materially underspent the budget on capital projects to the amount of R669 512 630 which represent 14% of the total allocated budget.

## **Additional matter**

14. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### **Unaudited disclosure notes**

15. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

### **Report on other legal and regulatory requirements**

16. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives of selected intermediate outcomes presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

### **Predetermined objectives**

17. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected intermediate outcomes presented in the annual performance report of the municipality for the year ended 30 June 2016:
  - Intermediate outcome 1.1.1: Regional Accessible Public Transport Network Development on pages xx to xx
  - Intermediate outcome 1.1.2: Invest in On-Grid Long Term Infrastructure on pages xx to xx
  - Intermediate outcome 1.1.3: Develop Long Term Informal Settlements Plan on pages xx to xx
  - Intermediate outcome 1.1.4: Develop Long Term Informal Settlements Plan on pages xx to xx
  - Intermediate outcome 4.3.1: Integrate Service Delivery and Citizen Responsibility on pages xx to xx
  - Intermediate outcome 5.4.1: Strategic Acquisition and Management of Key Assets on pages xx to xx
18. I evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information (FMPPI)*.
19. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
20. I did not identify any material findings on the usefulness and reliability of the reported performance information for the selected intermediate outcomes.

## **Additional matters**

21. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected intermediate outcomes, I draw attention to the following matters:

### **Achievement of planned targets**

22. Refer to the annual performance report on pages x to x; x to x; x to x and x to x for information on the achievement of planned targets for the year.

### **Adjustment of material misstatements**

23. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of the following selected intermediate outcomes.

- Intermediate outcome 1.1.1: Regional Accessible Public Transport Network Development on pages xx to xx
- Intermediate outcome 1.1.2: Invest in On-Grid Long Term Infrastructure on pages xx to xx
- Intermediate outcome 1.1.3: Develop Long Term Informal Settlements Plan on pages xx to xx
- Intermediate outcome 4.3.1: Integrate Service Delivery and Citizen Responsibility on pages xx to xx
- Intermediate outcome 5.4.1: Strategic Acquisition and Management of Key Assets on pages xx to xx

24. As management subsequently corrected the misstatements, I did not identify any material findings on the usefulness and reliability of the reported performance information.

### **Compliance with legislation**

25. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

### **Procurement and contract management**

26. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by Supply Chain Management (SCM) regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).

### **Expenditure management**

27. Reasonable steps were not taken to prevent irregular expenditure as required by section 62(1)(d) of the MFMA.

## **Internal control**

28. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

## **Leadership**

29. The accounting officer did not exercise adequate oversight responsibility regarding compliance with laws and regulations.

## **Financial and performance management**

30. Management did not ensure adequate controls are designed, implemented and monitored to ensure compliance with laws and regulations.

## **Other reports**

31. I draw attention to the following engagements that could potentially impact on the municipality's financial, performance and compliance related matters. My opinion is not modified in respect of these engagements that are either in progress or have been completed.

## **Investigations**

32. Fifty six cases of alleged irregularities relating to financial misconduct, fraudulent acts, theft and non-compliance were investigated during the financial year. The majority of these cases were investigated internally by the municipality's forensic department. Of these, thirty four have been completed and the remainder are either at the planning or execution phase.

*Auditor-General*  
Johannesburg  
31 December 2016



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